

RBI'S STATE OF THE ECONOMY REPORT cites benign inflation and industrial activity outlook

India Resilient, but Barriers to Trade, Global Events Pose Risk

Our Bureau

Mumbai: Tariff-related uncertainties ahead of the July imposition deadlines could have a disproportionate impact on the world economy, although domestic growth underpinned by benign inflation should shield India from global headwinds, central bank economists said. Negative trade policy outcomes that spawn further trade barriers, coupled with geopolitical uncertainties, could significantly scar the global economy, economists wrote in the Reserve Bank of India (RBI) June bulletin.

"In this context, the trade policy outcomes in July, after the temporary tariff hiatus is over, and the future course of geopolitical events would likely shape the medium-term economic prospects," wrote the economists, while cautioning that the likelihood of lofty trade barriers continue to pose serious supply disruption and growth risks.

Initial tariff imposition deadlines, set for April, were pushed back to July after US President Donald Trump said negotiations had begun with various trading partners,

Strong Indicators

July trade policy outcomes to likely shape future economic prospects



INFLATION
Down to **2.8%**
in May 2025
(the lowest since
February 2019)
from **3.2%**
in April

GROSS FDI*
April 2025 **\$8.8 billion**
March 2025 **\$5.9 billion**
April 2024 **\$7.2 billion**
*Foreign direct investment

including China. To pre-empt a growth slack, the RBI has already lowered the benchmark repo rate—the rate at which it lends to banks—by a cumulative 100 bps to 5.5% since February. One basis point is a percentage point.

The central bank has also announced a reduction in the cash reserve ratio (CRR) by 100 bps to 3% of net demand and time liabilities (NDTL) in a staggered manner to be carried out in four equal fortnightly tranches of 25 bps each, starting from September 6.

"Amidst elevated global trade uncertainty, the Indian economy remained resilient, registering the

highest growth among the world's major economies, with the latest estimates for Q4 indicating a sharp pick-up in momentum," said the economists in the report.

The views expressed in the State of the Economy report in the Bulletin do not necessarily reflect the opinions of the RBI.

Headline inflation, as measured by year-on-year changes in the all-India consumer price index (CPI), moderated to 2.8% in May. This is the lowest reading since February 2019.

Significantly, the CPI inflation has remained below the 4% legally mandated target for four months in

a row, giving the central bank policy space for further easing.

Available high-frequency indicators for May point to resilient industrial activity, with steady expansion in PMI manufacturing and strong growth in capital goods and steel output, the report said.

In the banking sector, both deposit and credit growth moderated this year, the report said. Moreover, banks are increasingly relying on certificates of deposit (CD) to meet funding needs as competition intensified in the bulk deposit space.

Gross inward foreign direct investment (FDI) amounted to \$8.8 billion in April, higher than \$5.9 billion in March and \$7.2 billion in April. Even the net FDI after factoring in repatriation and outward FDI was higher at \$3.9 billion in April, more than double the level in the same month last year, the paper said. External commercial borrowing (ECB) registrations slowed to \$2.9 billion during April, down from \$11 billion in March and \$4.3 billion in April.

Net FPI debt withdrawals in May, remained below 2% for most of the month even as the yield differential between Indian and US government bonds.